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THE SOVIET WORLD

Inside the USSR, there were continued signs last week that the new leadership was endeavoring to eliminate some of the strains of Stalin's regime. The party's authoritative ideological journal Kommunist continued the new campaign against the earlier policy of Russifying minorities. The Latvian SSR's central committee not only scored the Soviet nationality policy but replaced four Russian nationals with Latvians in important posts in its apparatus.

The appearance of V. A. Malyshev at the Bolshoi Theatre on 27 June with eleven of the fourteen members of the All-Union party presidium suggests that he has now replaced L. G. Melnikov as a presidium alternate. Malyshev, Minister of Transport and Heavy Machine Building, is an important member of the technical bureaucracy and was a full presidium member from the October Congress until Stalin's death. Melnikov had been severely criticized for not using local leaders in the western oblasts of the Ukraine, and his ouster as first party secretary of that republic was announced on 13 June.

In addition to Melnikov, L. P. Beria and M. D. A. Bagirov failed to appear with their colleagues. In Stalin's day, it was not unusual for one or more of the top leaders to be absent even on regular state occasions. Bagirov may have been in Azerbaijan where he is the local leader. Some Western observers speculated that Beria's absence indicated that he may have been blamed for the temporary loss of control in the East German riots, but the nature of MVD appointments throughout June suggests Beria's continued power.

Recent Hungarian press criticism of economic leaders for neglecting "the just demands of the workers" reflected possible Soviet sensitivity to repercussions from Czech and East German disturbances. These criticisms may presage concessions to Hungarian workers similar to those recently announced for the peasantry. In addition, Hungary and Albania last week modified their agricultural collection programs to the benefit of the farmers.

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Throughout East Germany, Soviet forces had apparently restored order, and it was reported that some restrictions had been lifted in East Berlin and the rest of the zone. Soviet troops and tanks were being withdrawn, but would doubtless be kept on the alert. There also were reports that many of those arrested would be freed leaving only a few of the ringleaders and "fascist agents" to take the blame for the riots.

Under Communist orders, new demonstrations were staged in East Berlin and Moscow to support the propaganda line on Western responsibility for the riots. Communist press and radio also linked the riots to the release of Korean prisoners but the Soviet Union had not yet shown its hand on a new unification campaign or new proposals for a united Germany. Meanwhile the Kremlin appeared to be pushing its new economic policy for the East German regime with renewed vigor. New decrees were published which, if implemented, would increase consumer goods, reduce agricultural quotas, improve housing, welfare, wages, and lower norms for the workers.

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RECENT MODIFICATIONS IN SOVIET DOMESTIC ECONOMIC POLICY

The reduced size of the Soviet State Loan for 1953, announced on 24 June and fully subscribed by 27 June, is in line with the unusually large retail price reductions this year and with planned increases in consumer goods production. These suggest a possible shift in the planned growth of the Soviet economy from emphasis on armaments and producer goods to consumer goods and are consistent with other Soviet moves aimed at gaining popular support for the new regime.

The new loan is about half as large as the 1951 and 1952 loans. State loans, virtually equivalent to a direct tax on personal income, have annually siphoned off consumer purchasing power equivalent to four weeks' pay per worker. This year only two weeks' pay per worker will be removed. These reductions in the loan and in consumer goods prices increase consumer purchasing power.

The loss of revenue to the state budget resulting from the loan reduction, which amounts to only three to four percent of total budget revenues, is not large enough to have a significant direct effect on 1953 budget expenditures or on individual budget components such as military outlays or capital investments. Its limited effects may be offset by additional receipts from other sources. The major source of government revenues is the turnover tax, falling largely on consumer goods, and even a slight increase in the tax rate or consumer goods sales would offset the revenue lost through the loan reduction.

This and other economic actions by the new Soviet government suggest that consumer goods production will be permitted to increase more rapidly than in the past relative to the growth of production in other industries.

By the end of the fourth Five Year Plan in 1950, Soviet progress in armaments production and the restoration of heavy industry had reached a point that permitted a slight shift in the emphasis in the fifth Five Year Plan to consumer goods production. With the outbreak of hostilities in Korea, the decision to make such a shift may have been delayed. The over-all goals of this new Five Year Plan, not announced until mid-1952, included a slight shift of emphasis in economic growth to the consumer goods segment. An acceleration of this trend by the new government would only be undertaken if it felt that war was not imminent.

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PREMIER LANIEL'S FRENCH GOVERNMENT

No change in French foreign policy is expected under Joseph Laniel, heretofore a relatively obscure conservative Independent, and there is little hope for an immediate solution of the basic financial problems which led to the overthrow of the Mayer government on 21 May. Laniel won the premiership on 26 June with nearly unanimous support from all the center and rightist elements in the National Assembly, largely because the deputies were convinced that a left-center government was out of the question for the moment.

Laniel, a wartime resistance hero and an industrialist, has fewer handicaps than ex-premier Pinay, an earlier dark horse who managed to hold the premiership for nearly a year. While Laniel has retained most of Mayer's ministers, he has formed a stronger cabinet. A seven-man "inner cabinet," composed mainly of ex-premiers, is designed to expedite the business of the government and compensate in part for Laniel's inexperience.

Although associated with both Pinay and Reynaud, Laniel felt that Pinay's save-the-franc policies were leading to economic stagnation. He seems to be more under the influence of Reynaud, who has long advocated drastic financial reforms. The appointment to the Finance Ministry of Edgar Faure, who shares Reynaud's financial views, may presage a more forthright fiscal policy than Laniel's short investiture speech indicated. It is unlikely, however, that the cabinet's measures will be accepted by the assembly.

The continuity of French foreign policy is assured through the presence of Bidault as foreign minister, Pleven as defense minister, and Reynaud and Teitgen as deputy premiers. Laniel adopted Bidault's position that the assembly's decision on the EDC treaty would be sought only after a settlement of the Saar question, the signing of the interpretative protocols, and the conclusion of the accords associating Britain with the EDC.

Laniel has said that he intends to seek an end to the Indochina war either during negotiations following the signing of the Korean armistice or in other negotiations conducted with the agreement of the governments of the Associated States.

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There is no indication, however, that the French are willing to consider an outright withdrawal, which would probably be the Viet Minh's condition for an armistice. Laniel planned to raise at the Bermuda conference the question of France's "too heavy burden" in Indochina, and American officials in Paris expect strong pressure for a sharing of the financial burden of France's military commitments throughout the world.

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EGYPTIAN INFLUENCE THREATENS LIBYA'S FUTURE

Egypt's influence in Libya's affairs challenges American, British and French influence in the two-year-old kingdom. It obstructs the negotiation of military base agreements between Libya and the Western powers and threatens to hamstring any agreements concluded. It fosters the forces imperiling the existence of the kingdom and makes Arab fanaticism an important factor in Libyan politics.

Egypt's proximity to Libya, their common Arab-Moslem character and Egyptian opposition to Western activities in an Arab state account for Egypt's interest. Britain and France have played influential roles in Libyan affairs, and the United States actively participated in the United Nations' establishment of a federated Libya under King Idriss as a constitutional monarch in December 1951.

Libya's three provinces -- Cyrenaica, of which King Idriss is also the spiritual ruler, Tripolitania and the Fezzan -- have little natural unity. Their king is narrowly sectional and offers no inspiring leadership. His people are economically poor, largely illiterate [redacted]. His government depends on British and French financial assistance and has little real administrative talent; a notable exception is Prime Minister Mahmoud Muntasser, an able, pro-Western Tripolitanian.

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This situation generates serious political, economic and administrative problems, not the least of which is royal interference with the normal processes of government. This recently precipitated a government crisis which almost forced the prime minister -- sorely tried by the king's tampering -- to resign. A reported compromise between the two probably leaves their basic conflict unresolved. Muntasser's continuance in office, in the face of royal indifference to Libyan unity, is at best a weak immunization against the dissolution of the kingdom. His resignation, always a possibility, probably would bring to power a Cyrenaican little interested in the task of realizing such unity.

In this situation Libya is confronted with important problems in foreign affairs. Italy, which took Libya away from the Turks in 1911, wants a treaty providing a favorable settlement of its property claims. France and Britain want military base agreements [redacted]

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The United States wants a formal agreement regularizing the use of Wheelus Field at Tripoli.

More importantly, from a Western viewpoint, Egypt is trying to draw Libya firmly into the Arab camp. The Cairo government has been particularly successful in extending its influence over King Idriss and his close advisers; this has merely intensified their sectionalism and made Cyrenaican separatism a greater threat to a united, federated Libya.

Egypt has furnished King Idriss legal and technical personnel in an apparent effort to reduce Libyan dependence on Western advisers. According to a recent cultural agreement, Egypt will provide Libya with 1,000 teachers over the next five years as well as introduce Egyptian educational curricula into the schools. On 3 March the two countries concluded a financial and commercial agreement, and Egypt is currently renewing a long-standing offer to meet Libya's financial deficit. Libya was admitted to the Arab League on 28 March and is expected to sign its security pact when the Anglo-Egyptian dispute is settled.

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25X6 Egypt has warned Libya that the West will use financial aid as a lever for obtaining advantages not consonant with Libyan sovereignty. The king's request for a five or ten year, rather than a 20-year, military agreement with the United States appears to reflect Egyptian advice.

This Egyptian influence has conveniently supplemented internal Libyan reasons for delaying the signing of base agreements and may prevent or indefinitely postpone ratification. Even if base agreements are successfully concluded, their implementation over the years is likely to be fraught with difficulty as Egyptian-Libyan interaction encourages the development in Libya of intense anti-Western nationalism.

JAPANESE LEFTISTS EXPLOIT OPPOSITION TO AMERICAN BASES

American requirements of land and sea areas for military use have placed on the limited agricultural and fishing resources of Japanese rural communities demands which are providing leftist groups with a major weapon for arousing anti-American sentiment. These groups are attempting to inflate local opposition against the bases into a nationwide campaign.

Despite Japan's vital need for the income resulting from the presence of the American forces, many Japanese apparently are becoming more sensitive about these troops. In June the volume of critical comment in major newspapers was 50 times greater than favorable coverage, a postoccupation high. Much anti-American feeling appears to stem from the common belief that Japan's commitments to the United States were made under occupation pressure and make the nation's regained sovereignty meaningless.

The Japanese also believed that a reduction of American military installations would follow the end of the occupation and this has failed to materialize. The approximately 250,000 acres of land and 100,000,000 square feet of building space occupied by American forces loom large in a nation where population pressure is severe. Consequently there has been growing local resistance to the government's efforts to obtain any new facilities required by the American forces. The anticipated rise in American troop strength in Japan following a Korean armistice is likely to create further antagonism. 25X6

The agitation over military bases involves more than the general leftist position on rearmament and neutralism. Blocked by the land reform under the occupation and the subsequent constructive agricultural policies of the government, the leftists have made relatively few political inroads on the traditional conservatism of rural Japan. They now have an opportunity to increase their strength among the rural population.

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[redacted]

POSSIBILITY OF EVACUATING CHINESE NATIONALISTS
FROM BURMA WILL SOON BE TESTED

While agreement has been reached on procedure for the evacuation of the estimated 12,000 Chinese Nationalist troops in Burma, the real test is yet to come. Full cooperation between Taipei and the Nationalist commanders in the field, on which success of the evacuation effort depends, is by no means wholly assured.

The reaching of an agreement is significant in itself since it suggests that Taipei finally may have agreed to the advisability of withdrawing at least some of the troops from Burma. Under the terms of the evacuation plan worked out by Chinese Nationalist, Burmese, Thai and American representatives meeting in Bangkok, Nationalist troops willing to be evacuated are to be flown or marched into Thailand from designated safety zones in Burma and thence transported to Formosa. The agreement also provides for the full exchange of prisoners and the repatriation of civilian Chinese detained by the Burmese government on charges of collaboration with Li Mi's forces.

Even with the fullest cooperation, the evacuation of an appreciable number will be difficult as the troops are ill-disciplined and widely dispersed and nearly all are Yunnanese who have no desire to go to Formosa. In fact, however, there is no evidence that the Bangkok committee's agreement is more than a paper concession by the top Nationalist leaders

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[redacted] General Li Mi, by far the most important authority to the troops in Burma, so far has not used his influence to facilitate a withdrawal and has continually raised objections to such action.

Meanwhile, Nationalist propaganda continues to deny that Formosa exercises control over the troops in question or can accept responsibility for any who may be unwilling to leave Burma.

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[redacted] Five Nationalist field commanders ordered to Bangkok to give the committee detailed information remained

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in northern Thailand for an entire week. When they finally arrived in Bangkok, they reiterated Taipei's earlier arguments against withdrawal and injected a new note of discord by implying that Burma was responsible for alleged atrocities against Overseas Chinese. Their spokesman said that a small number of troops might be willing to go to Formosa if so ordered, but their public statements and the Burmese reaction to them has at least temporarily disrupted the evacuation plans.

The evacuation of 2,000 to 3,000 troops is probably the best that can be hoped for. Such a partial solution would probably placate the Burmese, provided Taipei dissociates itself from those remaining in Burma. Failure to accomplish even such a partial withdrawal would give Communist elements in Rangoon, which have been exploiting the delay in the Bangkok negotiations, an opportunity to intensify greatly their pressure on the Burmese government. This might force reversal of a trend toward closer relations with the West.

An almost certain consequence of a breakdown in the talks would be a second Burmese appeal to the United Nations, a move already threatened by high Rangoon officials. A second appeal undoubtedly would be far more bitter than the first and this time might involve the United States.

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DE GASPERI MUST CHOOSE BETWEEN RIGHT OR LEFT TO FORM
A NEW GOVERNMENT

The Italian Christian Democrats face the problem of collaborating with either the right or the left to achieve the coalition they need to form a new government when parliament reconvenes this fall. The De Gasperi coalition cabinet resigned on 29 June and then received parliamentary authorization to function as a provisional administration through 31 August.

A further move to the right by the government in the fall would probably widen the social and economic cleavage indicated in the results of the 7-8 June national elections. This would tend to precipitate serious labor disturbances and could weaken Italy's capacity to contribute to Western European defense.

Strong pressure is being exerted on De Gasperi to ally his Christian Democratic Party with the Monarchists. Agitation is also afoot to replace him, should he reject such an alliance, with Piccioni, a right-wing Christian Democrat who was De Gasperi's vice premier. A Christian Democratic-Monarchist alliance would almost inevitably open the way to neo-Fascist participation in government policy. The Monarchists and neo-Fascists are closely associated, and for the 1951-52 local elections were electorally linked in many districts.

One of the prime movers for a new rightist coalition is Catholic Action chief, Luigi Gedda, who urged a Christian Democratic electoral alliance with the neo-Fascists in the 1951-52 elections, and is now reported to be trying to effect such an alliance by bringing the Monarchists into the government. In any such government one of the strongest influences would be Monarchist leader Achille Lauro, a member of the new lower house,

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The impressive leftist gains in the recent elections have indicated a widespread desire not for Communism, but for a Socialist alternative to both Communism and neo-Fascism. Labor, for instance, was overwhelmingly against the Christian Democrats because of the De Gasperi government's half-hearted and belated moves to fulfill its promises for social reforms. The formation of a government including the rightists, who oppose these promises, could be expected to provoke aggressive labor reaction.

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Both American and Italian observers have pointed out that the two strongest elements of Italian life are catholicism and socialism, and that a stable government must represent not only the 40.7 percent who voted for the Christian Democrats, but also the 41.3 percent who voted for social reform.

In order to avoid being driven into a rightist alliance, De Gasperi wishes to retain the support of the Democratic Socialists, who quit the cabinet in 1950 because of right-wing Christian Democratic domination but nevertheless continued to back the government in parliament. Because the party was almost demolished in the last election as a result of its association with the Christian Democrats and the unpopular electoral law, party leaders are loath to continue this support unless the government is broadened to include the other socialist parties, particularly the Nenni Socialists. Democratic Socialist leader Saragat is apparently determined not to support a rightist government, and should one be formed, De Gasperi would probably be deprived of his last element of moderate leftist support.

Since the election, the Nenni Socialists have offered to support the Christian Democrats and to participate in a De Gasperi government. Although Nenni has not indicated any intention to relax his party's opposition to Western European integration programs, he has stated that he might "swallow" the Atlantic Pact; his close association with the Communists, however, leaves much doubt as to his sincerity.

Meanwhile, Undersecretary for Foreign Affairs Taviani, leader of the left-wing Christian Democrats, whose influence in the party has reportedly increased as a result of the elections, has stated that the new government will have to satisfy those who voted for Nenni. He points out that an inflexible attitude against collaboration with the Nenni Socialists might drive the Italian voter even further to the left and jeopardize the already precarious stability of the government.

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